

## TABLE OF CONTENTS

<b>EXECUTIVE SUMMARY .....</b>	<b>1</b>
<b>PART I - INTRODUCTION</b>	
Purpose of the Semiannual Report .....	2
Railroad Retirement Board .....	3
<b>PART II - SIGNIFICANT ISSUES .....</b>	<b>4</b>
<b>PART III - OFFICE OF AUDIT</b>	
Mission .....	10
Report Summaries .....	10
Audits: Management Decisions and Implementation .....	16
<b>PART IV - OFFICE OF INVESTIGATIONS</b>	
Mission .....	17
Accomplishments .....	17
Investigative Cases .....	19
Affirmative Civil Enforcement Program .....	20
Representative Investigations .....	21
Hotline Calls .....	25
<b>PART V - REVIEW OF LEGISLATION AND REGULATIONS .....</b>	<b>26</b>
<b>APPENDICES</b>	
(A) OIG Reports Issued .....	27
(B) OIG Reports Issued Involving Questioned Costs and Recommendations That Funds Be Put To Better Use .....	28
(C) Previously Reported Significant Recommendations on Which Corrective Action Has Not Been Completed .....	30
(D) Audit Reports Over Six Months Old Pending a Management Decision .....	32
(E) RRB Management Reports .....	33
(F) Cross References to Inspector General Act .....	39

Office of Inspector General Reports are now available via the Internet at  
<http://www.ignet.gov>

## **EXECUTIVE SUMMARY**

During this semiannual reporting period, the Office of Inspector General (OIG) performed audits of two major activities which are in progress at the Railroad Retirement Board: the status of the conversion of information systems to ensure compliance with the Year 2000 and program progress to meet the requirements of the Government Performance and Results Act (GPRA). OIG auditors concluded that Year 2000 project management is adequately directing the implementation project. We provided management with recommendations for improvement for the Annual Performance Plan for FY 1999. We also completed a formal review of the agency's contracting for executive search services and concluded that the RRB could have performed all the activities completed by the contractor.

The Office of Audit completed 10 new audit reports and reviews which included its first independent audit of the agency's financial statements. The Office of Investigations achieved 51 criminal convictions, 40 civil judgements, 17 indictments/informations, and \$868,584 in monetary accomplishments.

A settlement of allegations against the previous Assistant Inspector General for Investigations (AIGI) was also reached. Under the terms of the settlement, he remitted \$7,500 in settlement of all claims without admitting liability, wrongdoing or guilt. This case was directly related to an earlier one involving the previous Inspector General, William J. Doyle III. Investigation revealed that the previous AIGI had used Federal monies to purchase five handguns and 5,000 rounds of ammunition which he provided to Mr. Doyle. This case was handled by the Civil Division of the U.S. Attorney for the Northern District of Illinois.

## **PART I - INTRODUCTION**

### **PURPOSE OF THE SEMIANNUAL REPORT**

The Inspector General Act of 1978 (Public Law 95-452, as amended) established Offices of Inspectors General to promote economy, efficiency, and effectiveness, and to prevent and detect waste, fraud, and abuse in a variety of government programs and operations. This legislation established independent statutory Inspectors General who have the authority to conduct audits, investigations and management studies of agency programs and operations.

The Railroad Retirement Solvency Act of 1983 (Public Law 98-76) established the Office of Inspector General (OIG) at the Railroad Retirement Board by naming the agency as "one of such establishments" identified under Section 2 of the Inspector General Act of 1978. The Inspector General Act Amendments of 1988 (Public Law 100-504) added the RRB to the list of agencies covered by the Inspector General Act. In January 1986, the first Inspector General was appointed at the Railroad Retirement Board.

The Inspector General must submit semiannual reports to the Chairman of the Railroad Retirement Board and to the U.S. Congress. This dual reporting requirement helps to ensure the public disclosure of program weaknesses as well as OIG independence. The Inspector General Act of 1978, as amended by the Inspector General Act Amendments of 1988, specifies the information to be included in semiannual reports.

## **THE RAILROAD RETIREMENT BOARD**

The Railroad Retirement Board (RRB) is an independent agency in the Executive Branch of the Federal government that is headed by a three member Board appointed by the President of the United States, with the advice and consent of the U.S. Senate. The Board Members' terms of office are five years with different expiration dates. The RRB's primary function is to administer comprehensive retirement-survivor and unemployment-sickness insurance benefit programs for the nation's railroad workers and their families. These programs are provided under the Railroad Retirement Act and the Railroad Unemployment Insurance Act. In addition, the RRB has administrative responsibilities under the Social Security Act for certain benefit payments and Medicare coverage for railroad workers.

During fiscal year (FY) 1997, the RRB paid \$8.2 billion in retirement and survivor benefits to approximately 800,000 beneficiaries, while net unemployment and sickness insurance benefits of \$73 million were paid to almost 35,000 claimants. The RRB also administers its own Medicare Part B program through a single carrier, United HealthCare Corporation. The carrier made payments totaling \$671 million to 688,000 persons.

## **PART II - SIGNIFICANT ISSUES**

### **Settlement of Complaint Against the Previous Assistant Inspector General for Investigations**

In our previous Semiannual Report to Congress, we reported on the settlement of a civil complaint involving the previous Inspector General, William J. Doyle III. The investigation of that case identified evidence of misconduct, abuse of office and certain criminal violations. One violation involved firearms and ammunition which were shipped to the former IG but never returned.

Further investigation revealed that the former Assistant Inspector General for Investigations (AIGI) had improperly used Federal monies to purchase five handguns and 5,000 rounds of ammunition for Mr. Doyle. He provided these items to the previous IG although he was fully aware that Mr. Doyle was not authorized to have a Federal firearm. The investigation also revealed that the previous AIGI had submitted fraudulent travel vouchers containing false claims and statements.

The case was initially presented to the Public Integrity Section of the Department of Justice for criminal prosecution. However, no action was taken and we submitted the case to the Civil Division of the Office of the U.S. Attorney for the Northern District of Illinois. Under the terms of the settlement agreement, the previous AIGI remitted \$7,500 in settlement of all claims without admitting liability, wrongdoing or guilt.

## **Review of the Implementation of the Government Performance and Results Act**

We also previously reported the results of our review of the agency's draft strategic plan. We also included a brief discussion of issues that we advised management needed to be addressed and provided recommendations for changes and suggestions for improvement.

Because of the importance of the agency's actions to comply with the Government Performance and Results Act (GPRA), we conducted a formal review of the RRB's Strategic Plan and FY 1999 Annual Performance Plan. We determined that the RRB is in compliance with the basic requirements of GPRA which was enacted to improve the effectiveness of Federal programs. The agency's Annual Performance Plan contains appropriate indicators in most areas for measuring agency performance against established goals. However, our review identified several performance targets that are nonexistent or inappropriate because some target levels have lower performance goals than the RRB's current performance level. Such goals do not meet GPRA's purpose of improving agency performance.

Auditors recommended that management review performance indicators and implement changes to ensure every performance indicator has a target level or an explanation be given why there is not a target level. The report also recommended that the RRB automate the process to produce performance indicators and ensure all cost information used by the agency comes from the cost accounting system or is reconcilable to the system's data. At present, the RRB's cost accounting section cannot reconcile the unit cost in the cost accounting reports to the unit cost in the financial statements.

Management rejected all report recommendations.

On November 6, 1997, the General Accounting Office (GAO) issued a report on its independent review of the RRB's Strategic Plan. GAO auditors believe that the RRB's plan had significantly improved from the July 1997 draft version. However, some concerns remain because the plan does not disclose the serious financial management problems identified in audits of the RRB's financial statements or how it plans to correct them. Management agreed to consider the comments when they next update the Strategic Plan.

We are committed to monitoring the agency's progress in fulfilling the terms of its Annual Performance Plan and Strategic Plan. We have formed a special unit to evaluate the RRB's performance; this procedure proved successful in our monitoring of the five year RRB/OMB Special Management Improvement Plan.

### **Review of the Year 2000 Project Plan**

During this reporting period, we conducted the first of two reviews of the RRB's Year 2000 project which involves the conversion of all mainframe and personal computer (PC) application systems. The conversion provides for the use of a full four digit year designation rather than the two digit year designation which is currently used.

During fiscal years 1996 and 1997, the RRB established two task forces to compile inventories of mainframe and PC application systems. The agency has identified 166 mainframe systems which must be converted and an additional 7 systems which will be replaced or retired. The agency has ranked two-thirds of the mainframe systems as mission critical - essential to the RRB's mission of paying benefits to the railroad public. These systems have been scheduled for conversion during fiscal years 1997 and 1998. This time schedule should allow a full year of production processing of the systems to ensure processing is correct. Non-critical systems will be converted during fiscal years 1999 and 2000.

This review determined that the RRB's Year 2000 project management is adequately administered, controlled and allows for timely completion. Auditors reviewed the inventory of critical and non-critical systems and found the rating of systems to be reasonable. Review results indicated that the RRB has established an appropriate plan to ensure its systems are Year 2000 compliant.

Auditors did recommend that management make minor changes to conversion and project management reports to ensure complete and accurate status reports. Corrective actions have been completed.

Because of the importance of Year 2000 conversions, we continue to closely monitor the agency's progress. We plan to conduct independent verification of the agency's validation testing of systems. We will also review the integration testing for all mission critical systems which is scheduled for calendar year 1999.

### **Financial Statement Audit**

On February 27, 1998, the Office of Inspector General issued its first independent review of the RRB's financial statements and related internal controls for the period October 1, 1996 through September 30, 1997. As in the prior financial statement audits for fiscal years 1993-1996, this report included a disclaimer of opinion by the auditors which resulted for two reasons:

(1) lack of sufficient audit evidence to determine the proper accounting and reporting of benefit payments; and (2) unavailability of information to apply sufficient procedures to the receivables, payables and related net revenue amounts related to the Financial Interchange. The Financial Interchange is an annual funds transfer between the RRB and the Social Security Administration (SSA) to place the SSA's trust funds in the same position they would have been if railroad employment had been covered by social security. The interchange is a major source of funding for the RRB.



The audit report also noted the following matters which the auditors consider to be material weaknesses:

- ! Accuracy of benefits - The testing of benefit payments identified errors in the computation of retirement, survivor and disability annuities.
- ! Overall control environment - As in previous audits, auditors continued to cite the current organizational structure as a material control weakness for several reasons. Recent reorganizations have not changed agency operations. The RRB's structure still contains 20 major operating units and lacks an independent Chief Executive Officer. The Board Members continue to have significant involvement in the operational affairs of the agency. This structure makes it difficult to resolve issues on a timely basis.

The results of benefit payments testing continue to raise uncertainties regarding the financial impact that could result from erroneous benefit payments. In addition, the current timetable for performing the settlement process of the Financial Interchange precludes the preparation of timely and accurate annual financial statements.

- ! Railroad Retirement Tax deposits - The Internal Revenue Service (IRS) and the Department of the Treasury do not provide the RRB with information to verify the accuracy of railroad retirement taxes deposited to the railroad retirement trust funds.

In 1997, the IRS implemented an automated clearing house system for processing railroad retirement taxes. This system is expected to provide deposit information for nearly all railroad employers and all payments for calendar year 1998. Calendar year 1998 will be the first full year in which deposit information will be available for nearly all employers. Reconciliations will begin in 1999. The RRB has established a target date of June 1999 to correct this particular weakness.

The problems and weaknesses cited in this financial statement audit have been ongoing issues since the initial audit of the financial statements in 1993. As we have repeatedly pointed out, auditors will be unable to issue an unqualified opinion on the RRB's financial statements until agency management addresses these problems.

### **Review of Contracting for Executive Search Services**

In March 1997, the RRB Board Members approved \$40,000 for a contract with an executive search firm to assist in filling the vacant Chief Information Officer (CIO) position. We questioned the benefit of such a contract and recommended that the agency not enter into such a contract because the funds could be put to better use. The agency did not respond to our recommendation and continued with the procurement.

As a followup, we conducted a review to ensure that (1) the contractor fully complied with the contract; (2) the RRB adequately monitored the performance of the contract; and (3) both parties complied with applicable laws and regulations. Auditors determined that the RRB did not fully comply with all applicable laws and regulations because the agency does not have evidence to determine that using a commercial recruiting firm was cost effective.

The RRB's 1995 search for a CIO generated 149 expressions of interest and led to the identification of 8 individuals deemed highly qualified. The RRB was clearly capable of identifying suitable candidates without the assistance of an executive search firm. In addition, the CIOs in most Federal agencies are career Federal employees. The RRB's selection of an individual from the Federal community clearly indicates there was no justification for the contract and expenditure of \$36,145.

It is the opinion of the OIG that the RRB could have, and should have, performed all the activities for which it contracted in the search for a CIO.

## **PART III - OFFICE OF AUDIT**

### **Mission**

The Office of Audit (OA) conducts reviews to: (1) promote economy, efficiency, and effectiveness in the administration of RRB programs and (2) detect and prevent waste, fraud and abuse in such programs. Through the Inspector General, this office ensures that the Board Members and the U.S. Congress are informed of current and potential problems in the RRB's operating programs, and advised of recommended improvements, as well as the status of corrective actions.

During this reporting period, OA issued ten reports including the three reviews described in Part II, Significant Issues: the audit of the agency's FY 1997 financial statements, a review of the RRB's Year 2000 Project Plan, and the Implementation of the Government Performance and Results Act of 1993. OA also conducted an external quality review of the Office of Inspector General-Office of Personnel Management.

### **REPORT SUMMARIES**

#### **Review of the Application Express System Implementation - Phase I**

One of the primary missions of the RRB is the administration of the Railroad Retirement Act. Section 2(d)(1) of the Act specifies that filing an application is one of the requirements for entitlement to survivor benefits. The Application Express (APPLE) System allows RRB employees to enter survivor benefit applications directly into the computer system. The system was designed to replace paper-based survivor benefit applications and supporting forms with computer screens.

The system evaluates application information, then calculates and issues a payment. This was the second review of the first phase of the APPLE system which is being developed in three phases: conversion of spouse annuitants to widow(er) annuitants, payment of lump sum death benefits and payment of the remaining survivor applicants such as children.

As a result of this review, auditors determined that system implementation activities are complete and system documentation to date is in compliance with guidance contained in the agency's ADP Standards and Procedures Manual.

### **Report Recommendations**

Auditors did identify some 31 employees who had unnecessary data entry access privileges to the APPLE system. Management subsequently removed the access privileges for these individuals and has taken steps to ensure this problem does not occur in the future. The report also recommended that the ADP Standards and Procedures Manual be updated to include instructions for incident control forms. These forms are used to identify and control changes required during the acceptance testing and implementation of a computer system. Management agreed and recently completed the necessary manual revisions.

### **Review of Commercial Activities at the Railroad Retirement Board**

Office of Management and Budget (OMB) Circular A-76 and the Revised Supplemental Handbook require agencies to define their activities as either governmental or commercial in nature. OMB guidance directs an agency to differentiate between those activities that must and should be performed by the government and those activities that are better performed by private industry.

In order to comply, the RRB's Office of Administration annually contacts operating bureaus to request updates for commercial activities. An appointed technical team periodically reviews the inventoried activities to determine if the activity should continue to be performed in-house by government employees or should be performed by private industry. We conducted this review to identify any additional activities at the agency that should be classified as commercial and considered for contracting.

An inventory dated April 1997 listed 39 commercial activities at the RRB which were currently under contract and 11 commercial functions which were being performed at the agency. Of those activities performed at the RRB, eight are subject to cost comparisons. However, auditors identified a lack of uniformity in the evaluation process and resulting differences in the performance of cost comparisons. Therefore, the current inventory does not adequately reflect the number and types of commercial activities at the RRB.

### **Report Recommendations**

Auditors recommended that the RRB use independent teams to perform reviews of various functions to identify additional commercial activities subject to OMB guidance. These teams should use a uniform series of steps for their reviews to ensure consistency. Specifically, the report directed the Chief Financial Officer to determine if more favorable and reasonable costs can be obtained for the Payroll/Personnel System by solicitation of bids from private industry.

Agency management stated RRB task forces were previously established to perform evaluations for contracting agency activities, and other independent reviews are not warranted. No action will be taken concerning the agency's payroll function; the unique requirements of the payroll system would require a commercial organization to make costly system modifications. We, however, believe additional analysis is required in this area.

## **Review of the Railroad Unemployment Insurance Act**

### **Section 2(f) Receivables**

The Railroad Unemployment Insurance Act requires that, if an employee receives RRB benefits for any period that the employee later receives payment from his/her employer, the RRB must be reimbursed for the benefits it paid. The employer is liable for the lesser of the amount of benefits paid for those days or the amount of pay for time lost. The Code of Federal Regulations requires that employers or other persons making reimbursements to the RRB must make them within 30 days from the date of payment of remuneration to the employee. Failure to do so shall subject the party to interest and penalties. The RRB is authorized to collect Section 2(f) payments and charge interest and penalties as established in Section 8 of the RUIA.

This review determined that improvements are required for processing Section 2(f) debts. The RRB's Office of Programs does not provide adequate controls to ensure all receivables are established and documented. There is no tracking of inquiries of requests from railroad employers for Section 2(f) information. In addition, railroad employers do not consistently report complete and timely payment information to the RRB. Finally, billing documents do not contain the correct collection due date and other relevant information.

### **Report Recommendations**

Management rejected recommendations concerning follow-up actions on inquiries from railroad employers and establishing a timeliness standard to ensure filing of documentation for claims. However, program managers agreed to revise reporting instructions for employers to include Section 2(f) requirements; these revisions have been completed. Revisions are also being made to billing documents to ensure all relevant information is included and to ensure that the railroads pay in a timely manner.

### **Total and Permanent Disability Processing Efficiency**

The Railroad Retirement Act provides for two types of disability benefits: total and permanent, and occupational disabilities. A total and permanent disability is payable to individuals with at least ten years of railroad service who have been determined to be totally and permanently disabled from all work. Survivors of deceased railroad workers are also eligible for this type of disability benefits. During FY 1996, the RRB issued 2,160 total and permanent disability decisions resulting in 1,494 awards and 666 denials.

OA initiated this review to compare the efficiency in processing total and permanent disability decisions at the Social Security Administration and the RRB. Both agencies report an average unit processing time, but differences in their methods of recording processing dates prohibit a comparison of figures. In some cases, the RRB cannot begin processing an individual's application until months after an official filing date which is used to compute processing time. If an individual expresses an intent to file, and he/she meets certain criteria, the RRB uses the expressed intent to file date as the official filing date. However, the RRB cannot take any further action until a completed disability application is received; this may involve a delay of several months.

The RRB does not maintain data on the unit cost of processing initial disability claims. The agency's computer systems are not programmed to compute this information. Auditors believe this information is necessary for management to evaluate performance and make effective decisions on the operations of the disability program.

### **Report Recommendations**

The report recommended that management develop procedures and maintain records for the reporting of disability processing time and costs. Program managers concurred with the recommendations and have initiated corrective actions.

### **Review of Procedures to Prevent Student Benefit Overpayments**

The Railroad Retirement Act, Section 2(d)(1) provides for the payment of an annuity to survivors of a deceased employee, including any child under age 18 and any child age 18 in full-time attendance at an elementary or secondary school. The employee must have ten years of service and a current connection with the railroad industry.

Employees in the RRB's field offices are responsible for verifying full-time student attendance at scheduled intervals. These employees must also establish controls to review and/or monitor a student case two months before the student graduates or turns age 19. When eligibility ends, staff in the appropriate field office complete a termination record on the automated Field-Address-Suspension-Termination computer system and advises the Survivor Benefits Division. The student control file is then forwarded to headquarters for permanent file documentation where claims examiners must review the file.

Auditors performed this review to determine if current procedures are effective in preventing student benefit overpayments. Results indicated that RRB personnel did not consistently comply with monitoring procedures. The agency could have avoided or reduced 34 overpayments totaling approximately \$81,100 by following procedures.

### **Report Recommendations**

As a result, OA recommended the revision or development of procedures to improve operations of student monitoring procedures. The recommendations addressed timeliness of monitoring and termination of benefits, centralized review of student cases, and personal contact with students by field office personnel. Management agreed with the suggested changes and have initiated corrective actions.



## AUDITS: MANAGEMENT DECISIONS AND IMPLEMENTATION

Through a Memorandum of Understanding, the Director of Administration transferred the responsibility for managing the open audit follow-up system to the Office of Inspector General. This system tracks the status of corrective actions for all audit recommendations. Procedures are in place to ensure that the agency is in compliance with all applicable regulations. Office of Management and Budget Circular No. A-50 (Revised) and the Inspector General Act Amendments of 1988 require the reporting of management decisions and corrective actions for all audit recommendations.

### Management Decisions

Recommendations requiring a management decision on October 1, 1997	3
New recommendations issued during this period	
pending a management decision	0
Previous recommendations for which a management	
decision was made	- 0
Number of recommendations pending a management decision	
on March 31, 1998	<u>3</u>

### Corrective Actions

Prior recommendations requiring action on October 1, 1997	139
New recommendations issued during this six month reporting period	32
Recommendations for which corrective actions	
were completed from October 1, 1997 - March 31, 1998	- 89
Recommendations pending final action	
March 31, 1998	<u>82</u>

## **PART IV - OFFICE OF INVESTIGATIONS**

### **Mission**

The Office of Investigations (OI) focuses on RRB benefit program fraud. OI's primary objective is to identify, investigate, and refer for prosecution and monetary recovery action, cases of waste, fraud and abuse in RRB programs. Through its investigations, OI also seeks to prevent and deter program fraud. In order to maximize the effect of its resources, OI continues to pursue cooperative investigative activities and coordination with other Inspectors General and law enforcement agencies, which include the Social Security Administration-Office of Inspector General (SSA-OIG), the Federal Bureau of Investigation (FBI), the U.S. Secret Service, the Internal Revenue Service, the Postal Inspection Service and the Defense Criminal Investigative Service.

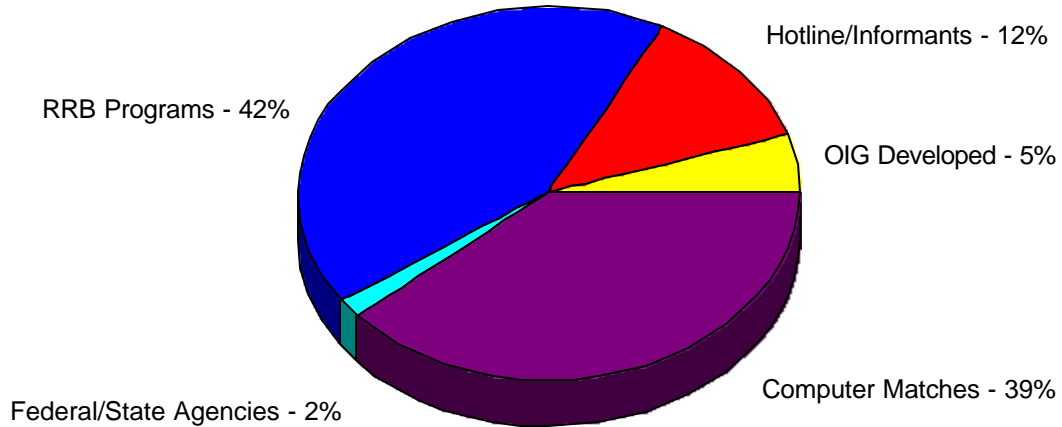
### **Accomplishments**

During this semiannual reporting period, OI achieved 51 criminal convictions, 40 civil judgements, 17 indictments and informations, and \$868,584 in monetary accomplishments. The table on the following page illustrates the investigative achievements during the past six months. OI presently has 204 cases pending prosecution with various U.S. Attorneys across the nation.

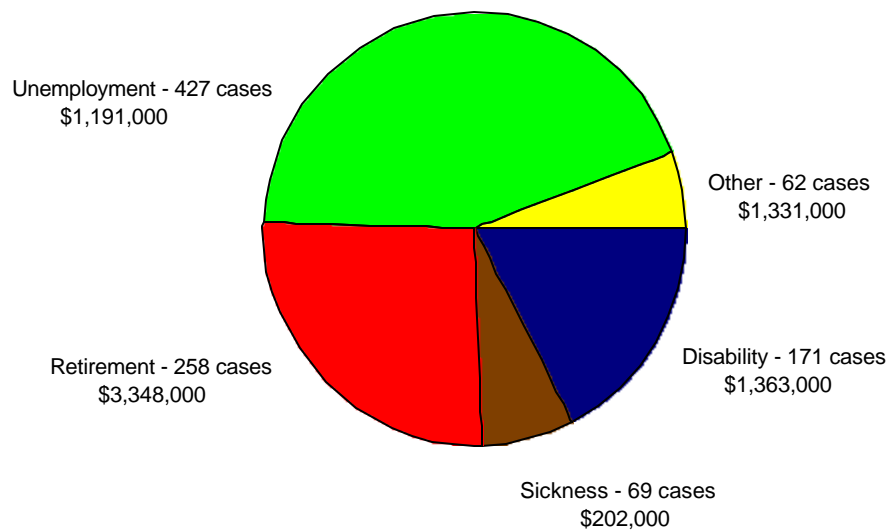
INVESTIGATIVE ACCOMPLISHMENTS	10/01/97-03/31/98
Convictions	51
Civil Judgements	40
Indictments/Informations	17
Investigative Recoveries & Savings	\$ 60,563
Restitutions and Fines	\$ 327,319
Civil Damages and Penalties	\$ 480,702
Community Service Hours	150
Disciplinary/Administrative Action	0
Complaints	28
Arrests	27
Subpoena Service:	
Inspector General	7
Federal Grand Jury	26
Formal Written Requests	0
Program Fraud Civil Remedies Act Referrals	2
U.S. Attorney Referrals	152

## INVESTIGATIVE CASES

During this semiannual period, OI opened 172 investigations and closed 261 cases. The major sources of case referrals are illustrated below.



OI's current caseload is approximately 1,000 criminal matters, representing over \$7.4 million in fraud against the RRB. A breakdown of the cases by RRB program area and estimated fraud losses is provided in the table below.



## **AFFIRMATIVE CIVIL ENFORCEMENT (ACE) PROGRAM**

OI continues to pursue prosecution of cases under the Department of Justice's Affirmative Civil Enforcement Program. This program involves "fast track" civil prosecution of cases under the provisions of the Title 31, U. S. Code, Sections 3729-3733, The Civil False Claims Act. This statute allows the government to recover up to triple damages as well as \$5,000 to \$10,000 for each false claim submitted.

During this reporting period, a total of 31 civil judgements under the ACE program were entered by Federal district courts which will result in the return of \$308,301 to the government when the funds are collected. Of this amount, the RRB trust funds will realize \$217,551.

The Department of Justice is frequently obtaining double damages through these civil false claims prosecutions. The judgements obtained in these cases also provide the agency with an efficient and effective basis to pursue their collection activities. Should the debtor become delinquent, the civil judgement is much more enforceable than payment plans established by the agency.

The ACE Program continues to provide an efficient means to address fraud against agency programs, particularly where the fraud losses are below the financial guidelines for criminal prosecution. It also is an effective way to return fraud losses to the RRB's trust funds and create a deterrent against future fraud.

## **REPRESENTATIVE INVESTIGATIONS**

### **Retirement Benefit Cases**

RRB retirement fraud typically involves the theft and fraudulent cashing of U.S. Treasury checks, or the illicit conversion of U.S. Treasury electronic fund transfers, by someone other than the authorized RRB annuitant. During this reporting period, OI obtained 20 convictions for retirement fraud. Defendants received 34 ½ years probation and 3 years, 4 months imprisonment, were ordered to pay \$122,435 in restitution, \$1,586 in fines and required to perform 50 hours of community services. OI also achieved six civil judgements in retirement fraud cases which will return \$181,400 to the RRB trust funds. In addition, \$60,563 was also voluntarily repaid to the RRB as a result of OI investigations.

Examples of recent retirement cases follow.

- # OI opened this case based upon a referral from the RRB's Spokane District Office (DO). The DO had discovered that an annuitant had died on December 29, 1985, and 106 payments totaling \$61,042 had been issued via electronic transfer to the individual since that date. Investigation revealed that the annuitant's daughter had fraudulently withdrawn the funds from her mother's account. On November 1, 1997, a judgement was entered against the subject which ordered her to pay a total of \$91,563 (damages of \$61,042 and penalties of \$30,521).
  
- # OI initiated an investigation after a railroad retirement annuitant failed to respond to an RRB inquiry. OI coordinated their efforts with the Barrie, Ontario Police Service and determined the annuitant's daughter had endorsed 44 U.S. Treasury checks totaling \$24,575 between December 1989 and August 1993. These actions were a direct violation of the Canadian Criminal Code, Section 730. The defendant was convicted and ordered to pay restitution of \$30,000 (Canadian), six months confinement and 50 hours of community service.

- # OI opened this case when an RRB bureau notified the OIG that an annuity payment to a retired annuitant had become undeliverable. Subsequent investigation revealed that the annuitant had died in 1992. His brother continued to receive the annuity payment through November 1994. Several attempts to locate and interview the subject in 1996 were unsuccessful. In October 1997, the subject was arrested based on information provided by an informant which revealed he had fled to Canada. The subject plead guilty to violating Title 45, Section 2311, Failure to Report Information to the RRB, and was sentenced to three years probation. He was ordered to make restitution of \$27,907, the total retirement benefits he used after his brother's death, to the RRB.

### **Unemployment and Sickness Insurance Cases**

Unemployment Insurance (UI) and Sickness Insurance (SI) benefit fraud involves individuals claiming and receiving UI or SI benefits while working and receiving wages from an employer, in violation of Federal law. The primary source of UI/SI fraud cases remains state computer matching programs that compare RRB beneficiaries with individuals for whom wages have been reported.

During this reporting period, OI obtained 31 convictions for UI and SI fraud. Defendants in these cases received, in the aggregate, 52 ½ years of probation, 7 years suspended sentences, 122 days imprisonment, were ordered to pay \$114,331 in restitution and \$5,463 in fines. OI also achieved 30 civil judgements which will return \$298,469 to the UI/SI programs.

Examples of typical cases involving individuals fraudulently receiving unemployment or sickness insurance benefits follow.

- # The RRB's Unemployment and Sickness Insurance Division referred a case to the OIG involving an individual's falsification of a Supplemental Doctor's Statement to fraudulently receive sickness insurance benefits. The subject admitted she knowingly and fraudulently forged and completed all U.S. RRB forms containing the signature of her doctor. The Department of Justice entered judgement against the individual under the provisions of the Program Fraud Civil Remedies Act, ordering her to pay \$16,095 to the RRB. This amount includes twice the amount of the original fraudulent overpayment of \$3047.50, plus an imposed penalty of \$10,000.
  
- # A computer wage match in the State of Ohio identified a claimant who worked and claimed unemployment insurance benefits during the same period from the RRB. Because the employer in this case was reluctant to provide employment information, the U.S. Attorney's office issued a Grand Jury subpoena to obtain the wage information required to establish the overpayment in this case. As a result, the employer did respond and an overpayment in the amount of \$8,100 was calculated. On October 2, 1997, the subject entered a guilty plea and was sentenced to three years probation, and ordered to pay restitution of \$12,060 to the RRB.
  
- # Another computer wage match with the State of Indiana identified an individual who collected unemployment benefits while employed. The subject fraudulently received \$2,898 for 75 days. OI Special Agents interviewed the subject in a County Jail at which time he invoked his right to consult with an attorney. The subject is currently serving a two year sentence for non-support of a dependent. Early in March, he was indicted for fraudulently negotiating several checks while on work release. The subject has now been indicted for felony theft as a result of his false claims against the RRB.



### **Disability Cases**

The OIG also conducts fraud investigations relating to the RRB's disability program, which typically involves larger financial amounts and more sophisticated schemes. During this reporting period, OI obtained 2 convictions for disability fraud and defendants in these cases were ordered to pay \$46,943 in restitution, and to serve two years probation. Three civil judgements were realized that will return \$55,833 to the disability program.

Descriptions of disability cases investigated by OI during this reporting period follow.

- # OI conducted an investigation of a subject who earned substantial wages from four employers while claiming RRB disability benefits. Three employers operated in Alaska, and the fourth one was located in Wyoming. An overpayment of \$34,086 has been calculated in this matter. When interviewed, the subject admitted to intentionally failing to inform the RRB of his employment, and explained that his condition had improved greatly since he initially received benefits. He also told agents that he lifts weights regularly and has obtained a black belt in karate after only eight months of training.
  
- # OI initiated this case as a result of a wage match with the State of Illinois. The match indicated that a subject was employed by a construction company during 1994 and 1995 while receiving an occupational disability from the RRB. The subject admitted that he knowingly defrauded the RRB of \$22,538. On March 28, 1998, he plead guilty and was sentenced to two years probation, six months home confinement and ordered to pay restitution for the full amount.

**HOTLINE CALLS**

The Office of Inspector General established its Hotline to receive complaints concerning suspected fraud, waste and abuse in RRB programs and operations. The Hotline provides an open line of communication for individuals who desire to report suspected criminal activity, conflict of interest, mismanagement, and waste of RRB funds.

	<b>10/01/97 - 03/31/98</b>
<b>Total Contacts (Telephone Calls and Letters)</b>	<b>841</b>
<b>Referred to:</b>	
RRB-OIG, Office of Investigations	116
RRB-OIG, Office of Audit	0
RRB Bureaus/Offices	569
Other Federal Agencies	22
United Health Care Corporation/ Durable Medical Equipment Regional Carriers	30
Other (misdirected calls, followup calls to agents and inquiries regarding previous complaints)	104
<b>TOTAL</b>	<b>841</b>

## **PART V - REVIEW OF LEGISLATION AND REGULATIONS**

The Inspector General Act requires the Inspector General to review existing and proposed legislation and regulations relating to the programs and operations of the agency and to make recommendations in the semiannual report concerning the impact on the economy and efficiency of the administration of the agency's programs and on the prevention of fraud and abuse.

The Railroad Retirement Board amended its regulations with respect to determining when an employee is found disabled for purposes of an occupational disability annuity. This regulation provides medical standards, criteria for weighing medical evidence, and forms for employer input with respect to the claimant's railroad duties. These regulations should positively impact the economy and efficiency of processing requests for occupational disability annuities.

**APPENDIX A****OIG REPORTS ISSUED**

<b>Report No.</b>	<b>Title</b>
98-01	Review of the Application Express System Implementation - Phase I, October 7, 1997
98-02	External Quality Assurance Review of the Office of Personnel Management, Office of Inspector General, October 29, 1997
98-03	Review of the Implementation of the Government Performance and Results Act of 1993, November 5, 1997
98-04	Review of Commercial Activities at the Railroad Retirement Board, December 4, 1997
98-05	Review of the Railroad Unemployment Insurance Act Section 2(f) Receivables, January 20, 1998
98-06	Review of Year 2000 Project Plan, January 30, 1998
98-07	Audit of the Fiscal Year 1997 Financial Statements, February 27, 1998
98-08	Total and Permanent Disability Processing Efficiency, March 6, 1998
98-09	Review of Procedures to Prevent Student Benefit Overpayments, March 24, 1998
98-10	Review of Contracting for Executive Search Services, March 27, 1998

## APPENDIX B

INSPECTOR GENERAL ISSUED REPORTS  
WITH QUESTIONED COSTS

	<u>Number</u>	<u>Questioned Costs</u>	<u>Unsupported Costs</u>
A. For which no management decision had been made by October 1, 1997	0	0	0
B. Which were issued from October 1, 1997 through March 31, 1998	0	0	0
Subtotals (A + B)	0	0	0
C. For which a management decision was made from October 1, 1997 through March 31, 1998	0		
(I) dollar value of disallowed costs		0	0
(ii) dollar value of costs not disallowed		0	0
D. For which no management decision has been made by March 31, 1998	0		0
Reports for which no management decision was made within six months of issuance	0		0

## INSPECTOR GENERAL ISSUED REPORTS WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE

	<u>Number</u>	<u>Dollar Value</u>
A. For which no management decision has been made by October 1, 1997	0	
B. Which were issued from October 1, 1997 through March 31, 1998	0	
Subtotals (A + B)	0	
C. For which a management decision was made from October 1, 1997 through March 31, 1998	0	
(I) dollar value of recommendations that were agreed to by management		0
(ii) dollar value of recommendations that were not agreed to by management		0
D. For which no management decision has been made by March 31, 1998	0	
Reports for which no management decision was made within six months of issuance	0	

## **APPENDIX C - PREVIOUSLY REPORTED SIGNIFICANT RECOMMENDATIONS ON WHICH CORRECTIVE ACTION HAS NOT BEEN COMPLETED**

### **AUDITS OF THE FINANCIAL STATEMENTS FOR FY 1993 (JULY 15, 1994), FY 1994 (JANUARY 13, 1995), FY 1995 (APRIL 23, 1996), AND FY 1996 (JANUARY 10, 1997)**

The RRB has not completed the necessary corrective actions to address weaknesses cited in the audits of the agency's financial statements for fiscal years 1993-1996, and which were also included in the recently issued FY 1997 financial statement audit report.

- (1) Crediting of retirement tax deposits - The RRB continues to work with the Internal Revenue Service and Department of the Treasury to ensure deposits are being properly credited. A new IRS system, the Electronic Federal Tax Payment System, became operational in FY 1997. The RRB has established a target completion date of June 1999 to correct this problem.
- (2) Overall control environment of the agency - Although the RRB has implemented several reorganizations, agency operations have not changed significantly. There are 20 major operating units and no independent Chief Executive Officer. The three Board Members remain highly involved in the operational affairs of the agency.

- (3) Inaccurate benefit payments - The audits identified inaccurate retirement, survivor and disability benefit payments which the auditors attributed to adjudicative and clerical errors.
- (4) Financial Interchange - Auditors also stated that the current timetable for the settlement process for the financial interchange prevents the timely and accurate preparation of annual financial statements.



## **APPENDIX D - AUDIT REPORTS OVER SIX MONTHS OLD PENDING A MANAGEMENT DECISION**

### **Review of Quality Assurance Activities, Report No. 97-06, January 22, 1997**

The Office of Inspector General reviewed agency quality assurance activities to identify the assignment of quality assurance responsibilities within the agency. The report recommended that the Board Members assign each Director the responsibility for quality assurance relative to the functions and activities of their respective offices and eliminate the current Bureau of Quality Assurance organization. We also recommended that the Board Members implement a quality management program similar to one proposed by a Total Quality Management task force in 1993.

The Director of Administration, the Director of Programs and the Assistants to the Board Members deferred action on the recommendations pending the final organizational structure and submission of a quality plan for the Assessment and Training Unit in the Office of Programs. Although the plan was submitted to the Board Members on August 11, 1997, no decision has been made.

The Board Members also agreed to address a quality management program in the context of a partnership council with the employee union. Discussions with the union were halted after union representatives insisted the partnership council include the Board Members or have authority to make binding decisions.

## APPENDIX E - RRB MANAGEMENT REPORTS\*

**MANAGEMENT REPORT ON FINAL ACTION  
ON AUDITS WITH DISALLOWED COSTS  
FOR THE SIX MONTH PERIOD ENDING MARCH 31, 1998**

	<u>Number of audit reports</u>	<u>Disallowed costs</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	<u>0</u>	\$ <u>0</u>
B. Audit reports on which management decisions were made during the period.	<u>0</u>	\$ <u>0</u>
C. Total audit reports pending final action during the period. (A + B)	<u>0</u>	\$ <u>0</u>
D. Audit reports on which final action was taken during the period.		
1. Recoveries		
(a) Collections and offsets	<u>0</u>	\$ <u>0</u>
(b) Property	<u>0</u>	\$ <u>0</u>
© Other	<u>0</u>	\$ <u>0</u>
2. Write-offs	<u>0</u>	\$ <u>0</u>
3. Total of 1 and 2	<u>0</u>	\$ <u>0</u>
E. Audit reports needing final action at the end of the period (C - D.3)	<u>0</u>	\$ <u>0</u>

---

\*The information contained in this section has been provided by RRB management.

---

**MANAGEMENT REPORT ON FINAL ACTION ON AUDITS  
WITH RECOMMENDATIONS TO PUT FUNDS TO BETTER USE  
FOR THE SIX MONTH PERIOD ENDING MARCH 31, 1998**

	Number of <u>audit reports</u>	Funds to be put <u>to better use</u>
A. Audit reports, with management decisions, on which final action had not been taken at the beginning of the period.	<u>0</u>	\$ <u>0</u>
B. Audit reports on which management decisions were made during the period.	<u>0</u>	\$ <u>0</u>
C. Total audit reports pending final action during the period. (A + B)	<u>0</u>	\$ <u>0</u>
D. Audit reports on which final action was taken during the period.		
1. Value of recommendations implemented (completed)	<u>0</u>	\$ <u>0</u>
2. Value of recommendations that management concluded should not or could not be implemented (completed)	<u>0</u>	\$ <u>0</u>
3. Total of 1 and 2	<u>0</u>	\$ <u>0</u>
E. Audit Reports needing final action at the end of the period (C-D.3)	<u>0</u>	\$ <u>0</u>

## MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING AS OF MARCH 31, 1998

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Assessment of Actions Suggested by OMB to Correct Deficiencies in RRB's Information Resources Management Program (93-01)	10/21/92	None	None	The Board Members approved a Strategic Information Resources Management Plan on 12/17/97. A related administrative circular (IRM-10) is scheduled for completion in 6/98.
Computer Match of RUIA Benefits & Copensation Adjustment Reports (93-20)	08/04/93	None	None	Necessary programming changes to perform the computer match will be addressed upon completion of the Year 2000 project.
Audit of the RRB's FY1993 Financial Statements	07/15/94	None	None	Corrective actions on two remaining recommendations are underway, with target completion dates in the first half of CY 1999.
Audit of the RRB's FY1994 Financial Statements	01/13/95	None	None	Corrective actions on two remaining recommendations are underway, with target completion dates in CY 1998.
Review Tier 1 and Tier 2 Compensation Differences (95-09)	03/15/95	None	None	Differences in employee records were resolved. After review by Office of Inspector General audit staff, the sole remaining recommendation was closed effective 4/16/98.
Review of Selected Separation Allowance Lump Sum Payments (95-11)	04/05/95	None	None	Agency staff reviewed and corrected disparities in payment records. Agency staff and OIG audit staff are working to resolve open issues on five cases.
Review of Selected Annuitants with Service Months After the Annuity Beginning Date (95-13)	04/11/95	None	None	Agency staff has provided the OIG audit staff with a current run of a program identifying cases with service after the ABD. Agency staff and the OIG audit staff are working together to resolve open issues.

## MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING AS OF MARCH 31, 1998

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of End-User Computing (96-02)	10/20/95	None	None	The Board Members approved a Strategic Information Resources Management Plan on 12/17/97. Administrative Circular IRM-10, scheduled for completion in 6/98, provides a conceptual basis for standardizing LAN operations and centralizing LAN administration.
Audit of the RRB's FY1995 Financial Statements	04/28/96	None	None	Remaining corrective actions are pending completion by the responsible organization and/or review by the OIG audit staff.
Review of Payments for Consultative Medical Exams (96-10)	07/09/96	None	None	The agency awarded a new contract for consultative medical exams on 2/2/98, and the new contractor started processing orders on 4/1/98.
Review of Service Months Between the Date Rights Relinquished and the Annuity Beginning Date (96-13)	08/23/96	None	None	Agency staff are developing a policy on service months after the annuity beginning date and reopening identified cases.
Review of Initial Claims Processing (96-15)	09/20/96	None	None	Implementation plans for advance evidence collection procedures will be developed throughout 1998. Some programming changes will be handled as part of a new on-line processing system planned for the new millennium.
Private Branch Exchange (PBX) System Review (96-20)	09/30/96	None	None	The agency is documenting recent service enhancements to the RRB Help Line. The 6/98 update to the contingency plan will also include necessary revisions.

## MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING AS OF MARCH 31, 1998

<u>Report</u>	<u>Date</u>	<u>Disallowed Costs</u>	<u>Funds to be put to better use</u>	<u>Reason action has not been completed</u>
Review of the Audit and Compliance Division (97-01)	11/01/96	None	None	Efforts to establish a memorandum of understanding with the IRS are ongoing.
Review of Modem Usage (97-05)	01/08/97	None	None	Several recommendations should be addressed in 6/98, when a revised administrative circular (IRM-10) is scheduled for completion.
Audit of the RRB's FY1996 Financial Statements	01/10/97	None	None	The agency entered into a contract with an investment advisory firm in 12/97 and completed a feasibility study for a backup power supply for the data center. The remaining open item will be addressed in 6/98 as part of a new administrative circular (IRM-10).
Review of Quality Assurance Activities (97-06)	01/22/97	None	None	The Director of Programs submitted a reorganization proposal for the Assessment and Training (AT) unit to the Board Members on 4/2/98. AT has also started a pilot quality assurance study using statistical process control.
Review of Non-Priority Correspondence Handling (97-09)	03/13/97	None	None	Draft procedures and a recommendation for a correspondence tracking system are currently under development.
Review of Railroad Retirement Act Maximum Benefits (97-11)	03/25/97	None	None	Cases with incorrect earnings credit have been identified and are being worked. The target completion date is 7/15/98.

**MANAGEMENT STATEMENT ON RESOLVED AUDIT REPORTS  
OVER TWELVE MONTHS OLD WITH FINAL ACTION PENDING  
AS OF MARCH 31, 1998**

<u>Report</u>	<u>Date</u>	Disallowed <u>Costs</u>	Funds to be put to <u>better use</u>	Reason action has not <u>been completed</u>
Review of Railroad Unemployment Insurance Act Contributions Due from Railroad Employers (97- 13)	03/28/97	None	None	Financial records currently distinguish between principal and interest on receivables for railroad unemployment insurance contributions from railroad employers. This information will be properly reflected in the fiscal year 1998 Report on Receivables Due from the Public (SF 220-9) to be issued in 11/98.

## APPENDIX F - REPORTING REQUIREMENTS

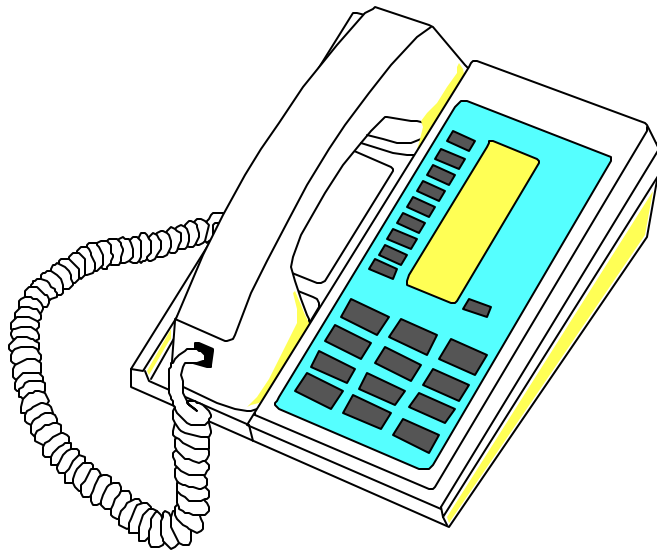
<b>Inspector General Act Requirements</b>	<b>Page</b>
Section 4(a)(2) - Review of Legislation and Regulations	26
Section 5(a)(1) - Significant Problems, Abuses, and Deficiencies	7-9
Section 5(a)(2) - Recommendations With Respect to Significant Problems, Abuses, and Deficiencies	7-9
Section 5(a)(3) - Prior Significant Recommendations Not Yet Implemented	30
Section 5(a)(4) - Matters Referred to Prosecutive Authorities	18
Section 5(a)(5) - Instances Where Information Was Refused	--
Section 5(a)(6) - List of Audit Reports	27
Section 5(a)(7) - Summary of Each Significant Report	--
Section 5(a)(8) - Statistical Tables on Management Decisions on Questioned Costs	28
Section 5(a)(9) - Statistical Tables on Management Decisions on Recommendations That Funds Be Put to Better Use	29
Section 5(a)(10) - Summary of Each Audit Report Over 6 Months Old For Which No Management Decision Has Been Made	32
Section 5(a)(11) - Description and Explanation for Any Significant Revised Management Decision	--
Section 5(a)(12) - Information on Any Significant Management Decisions With Which the Inspector General Disagrees	--
<b>Management Requirements</b>	
Section 5(b)(1) - Comments Deemed Appropriate	Transmittal Letter
Section 5(b)(2) - Statistical Table on Final Action on Disallowed Costs	33
Section 5(b)(3) - Statistical Table on Final Action To Put Funds to Better Use	34
Section 5(b)(4) - Statement on Audit Reports With Final Action Pending	35



**REPORT**

**FRAUD, WASTE AND ABUSE**

**RRB - OIG HOTLINE**



**1-800-772-4258**

**or write**

**Office of Investigations  
RRB-OIG  
844 North Rush Street  
Chicago, IL 60611-2092**